

# **TAX REFORM BACKGROUND INFORMATION**

# ISSUE GUIDE

## MICHIGAN'S DEFINING MOMENT



**ACTION GROUP • NOVEMBER 17, 2009**  
**BUDGET & TAX REFORM**



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## ABOUT THIS GUIDE

The purpose of this booklet is to present citizens, community leaders, and current and future state elected officials with a balanced and through-yet-easy-to-understand picture of Michigan's state budget -- the "public purse."

This guide will first be used as a discussion tool at the Center for Michigan's town hall meeting on state tax and budget issues in Lansing on November 17, 2009. But it is meant to be useful throughout the 2010 campaign season as voters select dozens of new legislators as well as a new governor.

This guide was researched and written by John Bebow and Peter Pratt with data guidance and fact-checking by Craig Thiel.

Mr. Bebow is executive director of the nonprofit, nonpartisan Center for Michigan. Before joining the Center in 2006, he worked for 16 years as an investigative reporter and editor at the Chicago Tribune, Detroit News, Detroit Free Press, MLive.com, and other Michigan newspapers. He holds a MBA with distinction from the University of Michigan.

Mr. Pratt is senior vice president for health and human services at Public Sector Consultants, where he has worked since 1986. He holds a BA, MA, and PhD in English from the University of Michigan.

Mr. Thiel is director of state affairs for the Citizens Research Council of Michigan. He previously worked for the Michigan Legislature in the non-partisan House and Senate Fiscal Agencies from 1997 to 2006. Craig's career also includes work at the Michigan Department of State and the United States Environmental Protection Agency in Chicago. He holds a Bachelor of Arts degree in economics and political science from Kalamazoo College and a Masters degree in Public Administration from Wayne State University.

## TODAY'S AGENDA

**8:00 – Registration, Coffee & Donuts**

**8:20 – Opening Remarks by Phil Power, president, Center for Michigan**

**8:30 – Panelist Introductions & Opening Statements:** What is your best vision for Michigan's future? What kind of sustainable, long-term state taxing and spending plan would help Michigan get there?

**9:00 – 1<sup>st</sup> Discussion & Live Poll: Public Investment Priorities:** Most of the state budget is split into a handful of broad priorities – economic development, education, public safety, quality of life, local communities, and the social safety net. Which of these priorities are most important to Michigan's future? And, how do we best act on those priorities?

**10:00 – 2<sup>nd</sup> Discussion & Live Poll: Public Investment Amounts:** Should Michigan's state budget generally be larger, smaller, or about the same size as it is today? What's *your* number? What is the right size for Michigan's state budget?" Panelists respond and engage in open discussion with the audience. .

**11:00 – 3<sup>rd</sup> Discussion & Live Poll: Future Tax System:** How can Michigan best provide for the kinds of public investment priorities we've explored today? What future tax system will best balance these needs: 1) sustainable revenue; 2) economic growth and prosperity; 3) fairness; and, 4) transparency and simplicity? Experts offer their views and the audience responds in a live poll.

**Noon – Working Lunch:** For those who can stay, there will be open discussion among audience members and panelists. Where does Michigan go from here? What budget and tax questions will you pose to the 2010 candidates for governor and legislature?

### PANELISTS

Throughout the morning, a panel of diverse Michigan leaders will help lead the discussion and respond to audience questions. They are:

**Charles Ballard:** MSU economist and author of "Michigan's Economic Future"

**Rob Fowler:** President & CEO, Small Business Association of Michigan

**Dan Gilmartin:** Executive Director & CEO, Michigan Municipal League

**Sharon Parks:** President & CEO, Michigan League for Human Services

**Doug Pratt:** Director of Communications, Michigan Education Association

**Doug Rothwell:** President & CEO, Business Leaders for Michigan

**Richard Studley:** President & CEO, Michigan Chamber of Commerce

## **DISCUSSION 1: Michigan's Public Purse Priorities**

From 9-10 am, we will discuss Michigan's broad state budget priorities. We'll start with a quick reading of Michigan's vital signs – a snapshot of its economic wellbeing and quality of life.

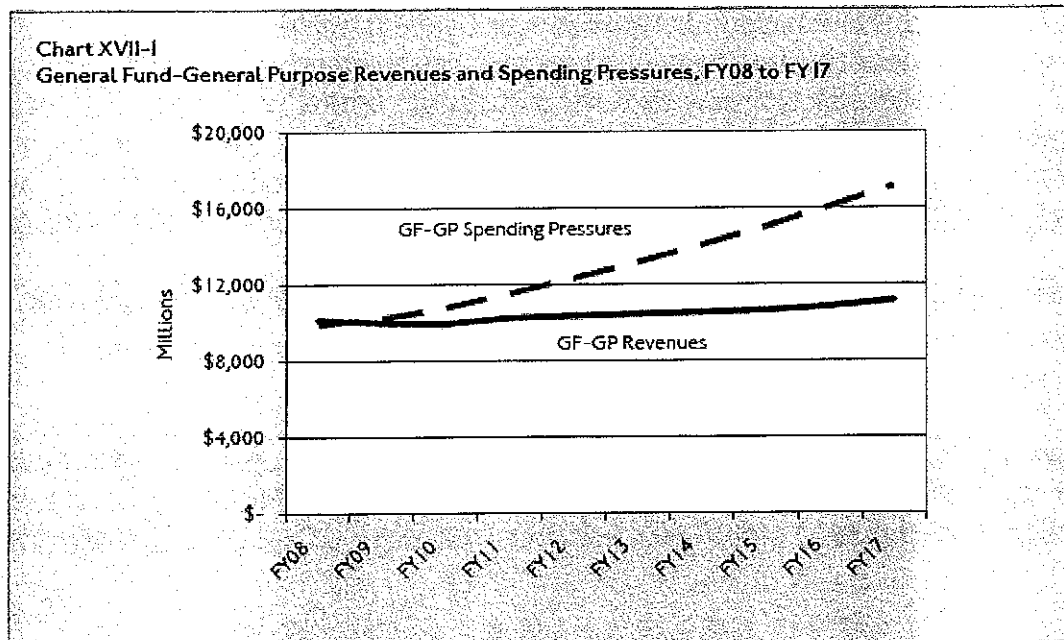
Next, we'll share perspectives about how the Michigan's main public purse – the state budget – can impact, for better or for worse, the future of those vital signs. We will use the digital "clicker" devices at your table to identify and discuss the top state budget priorities for Michigan's future.

The voting is for discussion purposes only, and is not meant to represent a statistically relevant sampling of the Michigan population. Please refer to the information in this guide during the voting and discussion.

### **THE BIG PROBLEM**

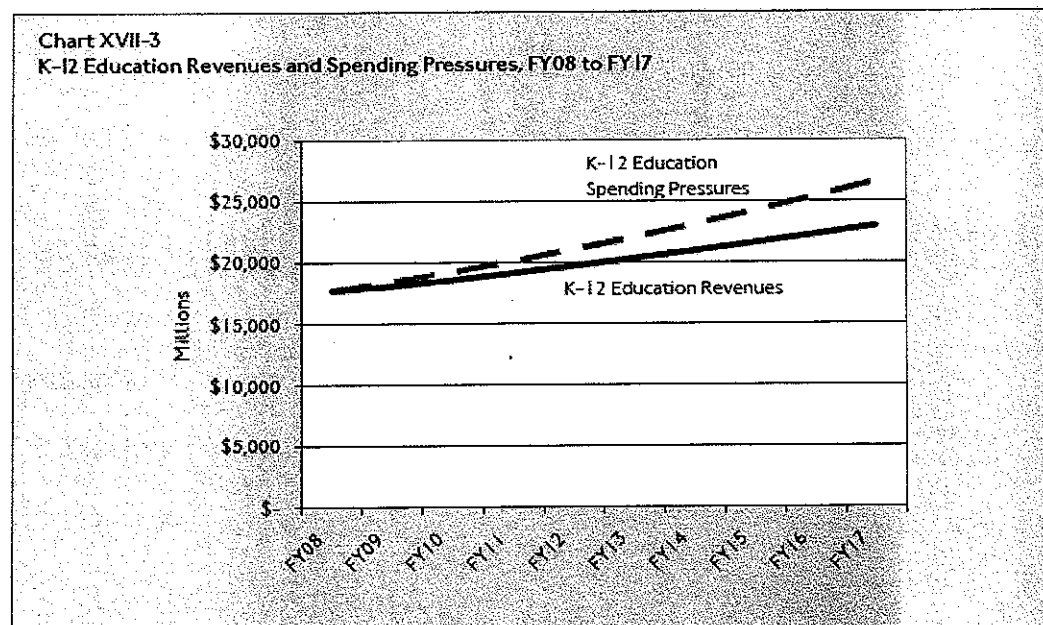
Michigan's current state budget and tax system is fundamentally flawed. It spends more money than it collects. Or, to put it another way, it does not collect enough revenue to fund all of the programs and services traditionally provided. This structural budget gap was at the root of the state budget crises in 2007 and 2009. The gap was more than \$1 billion in budget negotiations this fall. If unaddressed, it is projected to reach nearly \$10 billion by 2017 – and those projections assume a growing economy.

## GENERAL FUND STRUCTURAL BUDGET GAP



Source: "Michigan's Fiscal Future," by the Citizens Research Council, May 2008  
(<http://www.crcmich.org/PUBLICAT/2000s/2008/rpt349.pdf>)

## K-12 SCHOOL AID FUND STRUCTURAL BUDGET GAP



Source: "Michigan's Fiscal Future," by the Citizens Research Council, May 2008  
(<http://www.crcmich.org/PUBLICAT/2000s/2008/rpt349.pdf>)

## **THE SIGNIFICANCE TO CITIZENS**

This imbalance in Michigan's public purse impacts every state resident. The annual budget stalemates in Lansing prevent local governments, schools, and social safety net providers from strategically planning and delivering services. The constant prospect of new taxes and uncertain future tax liability hinders economic growth, business expansion, and creation of new jobs.

## **THE POSSIBLE SOLUTIONS**

The choices for future governors and legislators are clear: 1) Raise taxes; 2) Cut and reform programs; and, 3) Implement a strategic combination of tax increases, spending cuts, and reforms.

Those choices are central issues in the 2010 statewide election. The alternatives are more uncertainty, more malaise, and more hurdles to Michigan's long-term prosperity and quality of life.



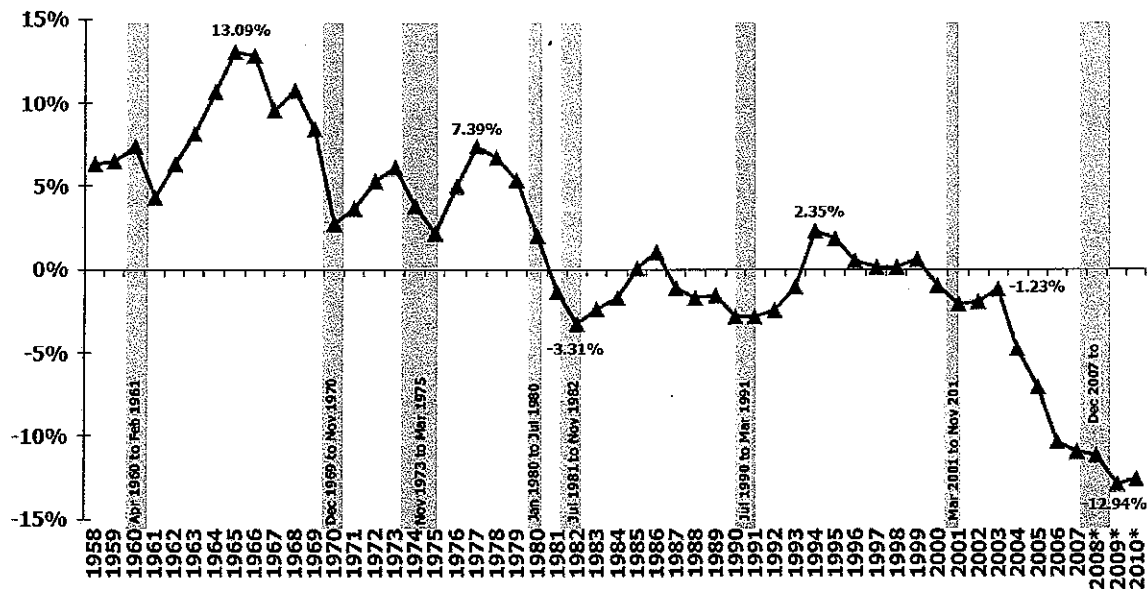
## VITAL SIGN: PER CAPITA INCOME

Michigan residents earned, on average, \$34,949 in 2008. That per capita income number illustrates Michigan prosperity in comparison to other states. By this measure, Michigan has grown poorer in recent years. In the first chart below, a figure above 100 percent indicates a year in which Michigan had higher per capita income than the national average. A figure below 100 percent indicates lower per capita income than the national average. The second chart tracks Michigan's national rank in per capita income.

MICHIGAN'S RANK AMONG ALL STATES IN PER CAPITA INCOME								
1970	1975	1980	1985	1990	1995	2000	2005	2008
13	17	16	17	21	18	19	33	38

**Source:** U.S. Bureau of Economic Analysis Per Capita Personal Income Tables, 1990-2008:  
([www.bea.gov/regional/spi/default.cfm?selTable=summary](http://www.bea.gov/regional/spi/default.cfm?selTable=summary))

## Michigan Per Capita Income Deviation from National Average

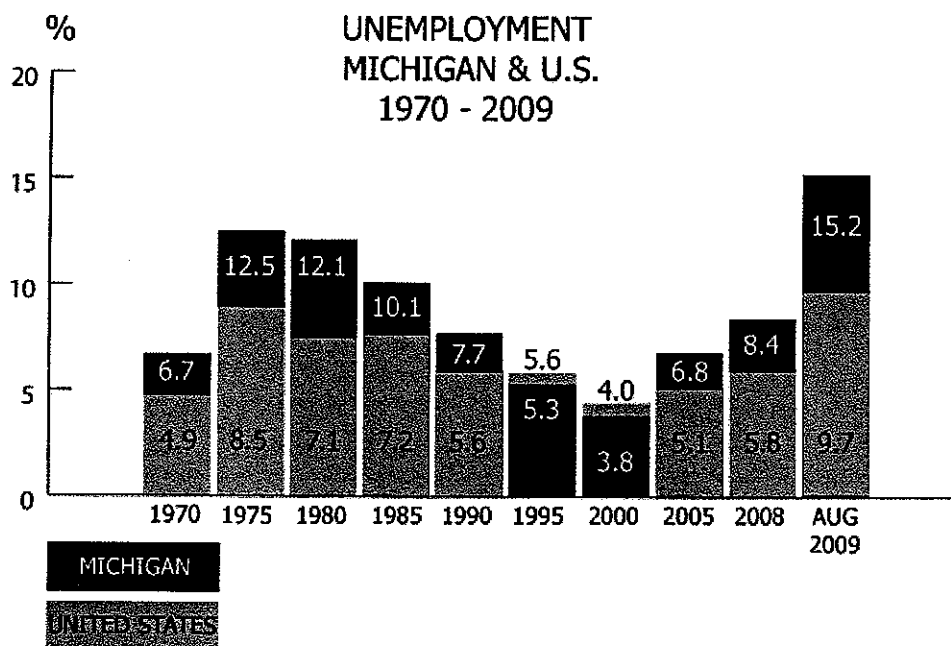


**Source:** "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

## VITAL SIGN: UNEMPLOYMENT

Most Michigan residents are now experiencing the worst employment climate of their lifetimes.

UNEMPLOYMENT IN MICHIGAN AND THE U.S. (1970-2009) -- numbers in percentages										
	1970	1975	1980	1985	1990	1995	2000	2005	2008	AUGUST '09
MICHIGAN	6.7	12.5	12.1	10.1	7.7	5.3	3.8	6.8	8.4	15.2
UNITED STATES	4.9	8.5	7.1	7.2	5.6	5.6	4.0	5.1	5.8	9.7



Source: Senate Fiscal Agency Michigan and U.S. Labor Market Statistics, 1970-2009  
(<http://www.senate.michigan.gov/sfa/Economics/laborstats.html>)

## VITAL SIGN: POVERTY RATE

PERCENTAGE OF MI POPULATION LIVING IN POVERTY			
	2006	2007	2008
MICHIGAN % IN POVERTY	13.3%	10.8%	13%
RANK AMONG STATES (with 1 being poorest state)	16	29	23

Source: U.S. Census Bureau Poverty Statistics: (<http://www.census.gov/hhes/www/poverty/bysurvey.html>)

## VITAL SIGN: EDUCATIONAL ATTAINMENT

Michigan has increased the education level of its workforce but still lags other Great Lakes states.

### PERCENTAGE OF POPULATION WITH BACHELOR'S DEGREE OR HIGHER

LOCATION	1990	2000	2006	2006-08
UNITED STATES	20.3%	24.4%	27.0%	27.4%
MINNESOTA	21.8%	27.4%	30.2%	31.1%
ILLINOIS	21.0%	26.1%	28.8%	29.5%
WISCONSIN	17.7%	22.4%	25.5%	25.5%
MICHIGAN	17.4%	21.8%	24.6%	24.7%
OHIO	17.0%	21.1%	22.9%	23.8%
INDIANA	15.6%	19.4%	21.8%	22.3%

**Source:** Digest of Education Statistics: <http://nces.ed.gov/programs/digest/d01/tables/PDF/table011.pdf> and [http://nces.ed.gov/programs/digest/d08/tables/dt08\\_011.asp](http://nces.ed.gov/programs/digest/d08/tables/dt08_011.asp) and [http://factfinder.census.gov/servlet/STGeoSearchByListServlet?\\_lang=en&\\_ts=274797884841](http://factfinder.census.gov/servlet/STGeoSearchByListServlet?_lang=en&_ts=274797884841). Last column: 3-year est. from American Community Survey.

## VITAL SIGN: TAX BURDEN

Total tax burden in Michigan is lower than the national average and lower than some other Great Lakes States. Michigan collected \$1 billion less than it would have in 2006 if its tax burden had equaled the national average. Michigan's tax burden has consistently ranked in the middle of the pack among all states.

(Note: The rankings listed below are the latest available, but do not reflect Michigan's income and business tax increases or other nationwide tax increases from 2007 to the present.)

### TOTAL TAXES AS A PERCENTAGE OF PERSONAL INCOME

LOCATION	1990	1995	2000	2005	2006
United States Average	10.3%	10.8%	10.4%	10.7%	10.9%
<b>Michigan</b>	<b>10.9%</b>	<b>10.3%</b>	<b>10.7%</b>	<b>10.7%</b>	<b>10.6%</b>
Illinois	10.1%	10.3%	10.1%	10.5%	10.6%
Indiana	9.3%	10.2%	9.9%	10.5%	10.6%
Minnesota	11.6%	12.3%	11.5%	11.0%	11.2%
Ohio	9.7%	10.6%	10.7%	11.4%	11.3%
Wisconsin	11.5%	12.6%	12.1%	11.8%	11.6%

**Source:** State and Local Government Finance Data Query System. <http://www.taxpolicycenter.org/slf-dqs/pages/cfm>. The Urban Institute-Brookings Institution Tax Policy Center. Data from US Census Bureau, Annual Survey of State and Local Government Finances, Volume 4, and Census of Governments. Accessed October 22, 2009.

### STATE RANKINGS OF TOTAL TAX BURDEN

LOCATION	1990	1995	2000	2005	2006	2008
Illinois	26	31	35	31	32	30
Indiana	35	37	36	33	33	28
<b>Michigan</b>	<b>23</b>	<b>32</b>	<b>24</b>	<b>24</b>	<b>27</b>	<b>27</b>
Minnesota	4	6	11	17	11	12
Wisconsin	2	4	2	6	8	9
Ohio	29	20	13	11	10	7

NOTE: The lower the number, the higher the tax burden. 1 = highest tax burden; 50 = lowest tax burden.

**Source:** Tax Foundation annual tax burden rankings: <http://www.taxfoundation.org/taxdata/show/461.html>

## VITAL SIGN: BUSINESS CLIMATE

Michigan and other Great Lakes states receive average-to-poor scores in numerous national business climate rankings.

BEST STATES FOR BUSINESS: RANKINGS OF MICHIGAN AND OTHER GREAT LAKES STATES				
	SMALL BUSINESS	FORBES' BEST	KAUFFMAN NEW	
	SURVIVAL INDEX	STATES FOR BUSINESS	ECONOMY INDEX	AVERAGE OF
LOCATION	2008	2009	2007	THREE RANKINGS
ILLINOIS	24	24	16	21
MINNESOTA	46	17	11	25
INDIANA	20	30	31	27
OHIO	18	37	29	28
<b>MICHIGAN</b>	<b>19</b>	<b>49</b>	<b>19</b>	<b>29</b>
WISCONSIN	26	48	30	35

### ABOUT THESE RANKINGS:

**SMALL BUSINESS SURVIVAL INDEX:** Created by the Small Business and Entrepreneurship Council. Considers personal, corporate, capital gains, sales, unemployment, and property tax rates; health insurance mandates; utility costs; crime rates; worker's compensation benefits; number of government employees; and state and local government expenditures.

([www.sbecouncil.org/uploads/sbsi%202008%5B1%5D1.pdf](http://www.sbecouncil.org/uploads/sbsi%202008%5B1%5D1.pdf))

**BEST STATES FOR BUSINESS:** Created by Forbes Magazine. Measures six categories: costs, labor supply, regulatory environment, current economic climate, growth prospects, and quality of life.

([http://www.forbes.com/2009/09/23/best-states-for-business-beltway-best-states\\_table.html](http://www.forbes.com/2009/09/23/best-states-for-business-beltway-best-states_table.html))

**STATE NEW ECONOMY INDEX:** Created by the Ewing Marion Kauffman Foundation. Benchmarks economic transformation in the states using 26 factors, including IT professionals; managerial, professional, and technical jobs; workforce education; entrepreneurial activity; inventor patents; technology in schools; high-tech jobs; scientists and engineers; investment in R & D; and venture capital, among others.

(<http://www.kauffman.org/research-and-policy/2007-state-new-economy-index.aspx>)

## **DISCUSSION 2: Public Investment Strategies**

From 10-11 a.m, we will review how Michigan spends the public purse and consider future public investment strategies:

- Should the state budget generally be larger, smaller, or about the same size as it is today?
- To help achieve the kind of Michigan you envision, what should we do going forward? Should we spend more, less, or the same on such priorities as K-12 education, higher education, public safety, the social safety net, and quality of life?
- What's **your** budget number? What's the right size for Michigan's public purse?

### **SNAPSHOT OF TOTAL STATE SPENDING**

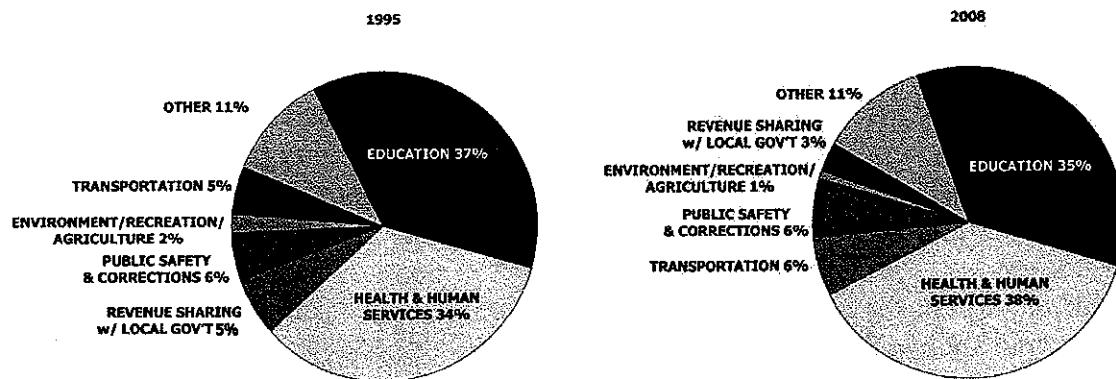
Six types of expenditure/investment account for almost all state spending. In the past 15 years, inflation-adjusted spending has increased on education, health and human services, public safety & corrections, and transportation. Inflation-adjusted spending has decreased on the environment/natural resources/agriculture and revenue sharing with local governments. The total piece of the state spending pie devoted to health and human services has increased significantly in this time frame. The total pieces of the pie devoted to education, the environment, and revenue sharing have decreased significantly.

INFLATION-ADJUSTED STATE SPENDING (1995-2008) IN 2008 \$ BILLIONS						
	1995	2000	2005	2008	CHANGE 95-08	% OF TOTAL
EDUCATION	\$13,568	\$15,119	\$15,685	\$15,029	11%	35%
HEALTH & HUMAN SERVICES	\$12,291	\$13,408	\$15,425	\$16,198	32%	38%
PUBLIC SAFETY & CORRECTIONS	\$2,161	\$2,411	\$2,473	\$2,615	21%	6%
TRANSPORTATION	\$1,876	\$2,022	\$2,342	\$2,339	25%	6%
ENVIRONMENT/RECREATION/AGRICULTURE	\$887	\$686	\$648	\$580	-35%	1%
REVENUE SHARING W/ LOCAL GOV'T	\$1,652	\$1,816	\$1,205	\$1,076	-35%	3%
OTHER	\$3,881	\$4,331	\$4,679	\$4,673	20%	11%
<b>TOTAL EXPENDITURES</b>	<b>\$36,316</b>	<b>\$39,794</b>	<b>\$42,458</b>	<b>\$42,511</b>	<b>17%</b>	

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports [http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

## THE STATE BUDGET PIE 1995-2008

The total piece of the state spending pie devoted to health and human services has increased significantly in this time frame. The total pieces of the pie devoted to education, the environment, and revenue sharing have decreased significantly.



### DEFINITIONS:

**EDUCATION:** K-12, community colleges, and public universities.

**HEALTH & HUMAN SERVICES:** Includes Medicaid, cash and food assistance, and a range of other services for low-income state residents.

**PUBLIC SAFETY & CORRECTIONS:** The prison system, State Police, military & vets affairs.

**TRANSPORTATION:** Road and bridge construction and maintenance.

**ENVIRONMENTAL/RECREATION/AGRICULTURE:** DNR, DEQ, Dept. of Agriculture.

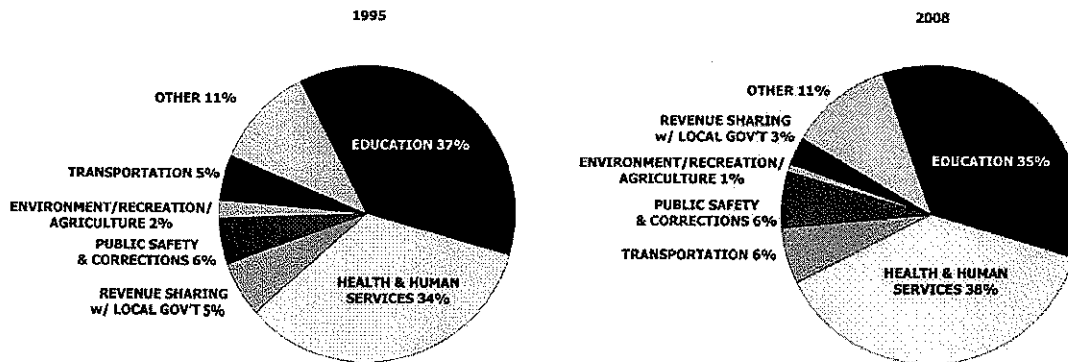
**REVENUE SHARING:** Payments to local governments to help cover the costs of police and fire protection and a wide range of other local services.

**OTHER:** General gov't, capital outlay, debt service, labor/commerce, regulatory.

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports ([http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html)), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

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## SNAPSHOT OF GENERAL FUND SPENDING TRENDS

Most state tax revenues are earmarked for specific uses, such as sales taxes and lottery revenues for education and gasoline taxes to fix roads. As shown in the previous chart, overall state spending is up in the past 15 years. That's mainly because of increased federal "pass-through" funding for health and human services and transportation.

Things look very different in the state "General Fund," which is funded mainly through tax revenues collected within the state. The general fund accounts for less than one-fifth of total state spending – but it's where all the action is. The General Fund is the main pot of money the governor and Legislature use at their discretion each year. It also is the source of the debates that led to budget gridlock in Lansing two of the past three years. Due to Michigan's decade-long economic slump, inflation-adjusted general fund appropriations are almost one-third less than they were at the beginning of the decade. Appropriations are down in almost all categories, except management and budget, labor and economic growth, and corrections.

Several takeaways from the chart on the next page:

- 1) **Less for education.** During happier economic times, the general fund supplemented the state's K-12 school aid fund with hundreds of millions of dollars of additional funding for local schools. Those days are over – general fund contributions to school aid are down to \$31 million (6 percent of what they were in 1999-2000). Community college spending is down by about one-fifth and general fund spending on universities is down by more than a quarter.
- 2) **Less for the environment.** Same goes for the departments of Natural Resources and Environmental Quality – general fund spending on those priorities is only one-quarter as much as it was in 1999-2000.
- 3) **Knee-jerk solutions are not solutions.** In public opinion polls and media interviews, citizens' first suggestion often is to cut the budgets of the legislature or the governor. But their combined budgets account for only 1 percent of the general fund – take all their money away and you keep the lights on in the rest of state government for less than one work week.

**DISCRETIONARY SPENDING: 2000-2010 GEN. FUND (Inflation-adjusted in 2010 \$ millions)**

	1999-2000	2009-10	CHANGE 00-10	% OF 2010 GF
Community Colleges	\$364.2	\$299.4	-18%	
Education Department (Administration)	\$46.3	\$19.4	-58%	
Higher Education	\$2,057.5	\$1,507.7	-27%	
General Fund contribution to school aid	\$515.3	\$31.8	-94%	
<b>TOTAL EDUCATION</b>	<b>\$2,983.3</b>	<b>\$1,858.3</b>	<b>-38%</b>	<b>23%</b>
Attorney General	\$39.3	\$28.8	-27%	
Civil Rights	\$15.9	\$11.7	-26%	
Executive Office	\$6.6	\$4.8	-27%	
Information Technology	\$0.0	\$0.0		
Legislative Auditor General	\$15.3	\$11.6	-24%	
Legislature	\$124.6	\$104.8	-16%	
Management & Budget	\$163.5	\$295.3	81%	
Secretary of State	\$73.6	\$18.0	-76%	
Treasury - Operations	\$77.6	\$60.2	-22%	
Treasury - Michigan Strategic Fund	\$79.5	\$27.1	-66%	
Treasury - Debt Service	\$114.5	\$64.7	-44%	
Treasury - Revenue Sharing	\$8.0	\$0.0	-100%	
<b>TOTAL GENERAL GOVERNMENT</b>	<b>\$718.5</b>	<b>\$626.9</b>	<b>-13%</b>	<b>8%</b>
Community Health	\$3,229.8	\$2,308.7	-29%	
Human Services	\$1,333.9	\$860.3	-36%	
<b>TOTAL HUMAN SERVICES</b>	<b>\$4,563.7</b>	<b>\$3,168.9</b>	<b>-31%</b>	<b>39%</b>
Agriculture	\$56.2	\$30.6	-46%	
Environmental Quality	\$117.9	\$27.0	-77%	
Natural Resources	\$63.1	\$16.7	-73%	
<b>TOTAL RESOURCE PROTECTION</b>	<b>\$237.2</b>	<b>\$74.3</b>	<b>-69%</b>	<b>1%</b>
Corrections	\$1,821.3	\$1,870.2	3%	
Military & Veterans Affairs	\$48.6	\$36.4	-25%	
State Police	\$329.2	\$267.3	-19%	
Judiciary	\$197.2	\$153.1	-22%	
<b>TOTAL PUBLIC SAFETY</b>	<b>\$2,396.5</b>	<b>\$2,327.0</b>	<b>-3%</b>	<b>29%</b>
Capital Outlay	\$339.8	\$0.0	-100%	
Energy Labor, Economic Growth	\$25.9	\$55.1	113%	
History, Arts, & Libraries	\$42.0	\$0.0	-100%	
Unclarified employee concessions	\$0.0	(\$27.5)		
Unclarified contract savings	\$0.0	(\$20.0)		
Unclarified "other adjustments"	\$0.0	(\$10.0)		
Transportation	\$0.0	\$0.0		
<b>TOTAL OTHER</b>	<b>\$407.6</b>	<b>(\$2.4)</b>	<b>-100%</b>	<b>0%</b>
	\$0.0	\$0.0		
<b>TOTAL GENERAL FUND APPROPS</b>	<b>\$11,306.8</b>	<b>\$8,053.0</b>	<b>-29%</b>	

**Sources:**

1999-2000 Senate Fiscal Agency Appropriations Report:

(<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>)

2008-09 Senate Fiscal Agency Appropriations Report -- Initial Appropriations by Source of Funds:

<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2009.pdf>

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>

## K-12 EDUCATION SPENDING AT A GLANCE

Inflation-adjusted overall state spending on education – mostly for local school districts – increased 11 percent from 1995-2008. Looking forward, school districts are likely to see increasing retirement and benefits costs pressures, declining local property tax bases, and declining enrollments.

A clarification... More than 80 percent of the total "education" spending in the state budget is to fund statewide K-12 schools. The "school aid fund" is made up primarily of sales tax and lottery revenues, though in years when money has been available the state general fund also contributes to local schools.

INFLATION-ADJUSTED STATE SPENDING (1995-2008) IN 2008 \$ MILLIONS						
	1995	2000	2005	2008	CHANGE 95-08	% OF TOTAL
<b>EDUCATION</b>	<b>\$13,568</b>	<b>\$15,119</b>	<b>\$15,685</b>	<b>\$15,029</b>	<b>11%</b>	<b>35%</b>
HEALTH & HUMAN SERVICES	\$12,291	\$13,408	\$15,425	\$16,198	32%	38%
PUBLIC SAFETY & CORRECTIONS	\$2,161	\$2,411	\$2,473	\$2,615	21%	6%
TRANSPORTATION	\$1,876	\$2,022	\$2,342	\$2,339	25%	6%
ENVIRONMENT/RECREATION/AGRICULTURE	\$887	\$686	\$648	\$580	-35%	1%
REVENUE SHARING w/ LOCAL GOV'T	\$1,652	\$1,816	\$1,205	\$1,076	-35%	3%
OTHER	\$3,881	\$4,331	\$4,679	\$4,673	20%	11%
<b>TOTAL EXPENDITURES</b>	<b>\$36,316</b>	<b>\$39,794</b>	<b>\$42,458</b>	<b>\$42,511</b>	<b>17%</b>	

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports ([http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html)), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

2000-2010 GENERAL FUND TRENDS (inflation-adjusted in 2010 \$ millions)				% OF
	1999-2000	2009-10	CHANGE 00-10	2010 GF
Community Colleges	\$364.2	\$299.4	-18%	
Education Department (Administration)	\$46.3	\$19.4	-58%	
Higher Education	\$2,057.5	\$1,507.7	-27%	
General Fund contribution to school aid	\$515.3	\$31.8	-94%	
<b>TOTAL EDUCATION</b>	<b>\$2,983.3</b>	<b>\$1,858.3</b>	<b>-38%</b>	<b>23%</b>

**Sources:**

1999-2000 Senate Fiscal Agency Appropriations Report:

(<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>)

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

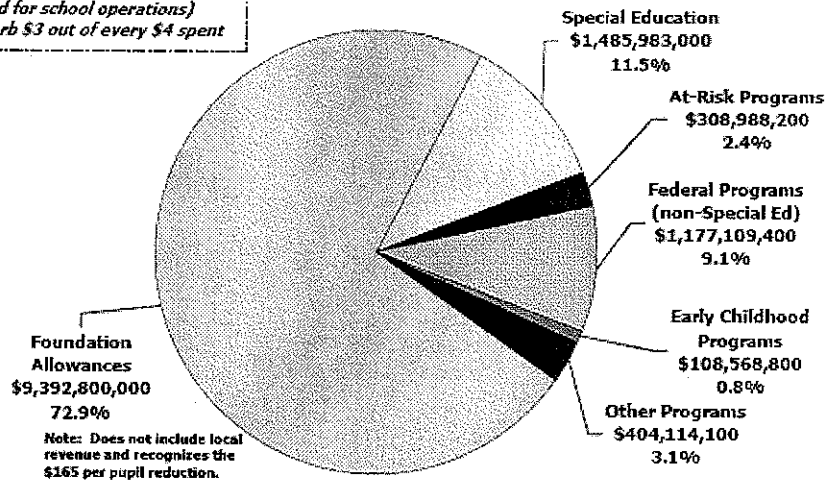
<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>



## School Aid Major Spending Categories

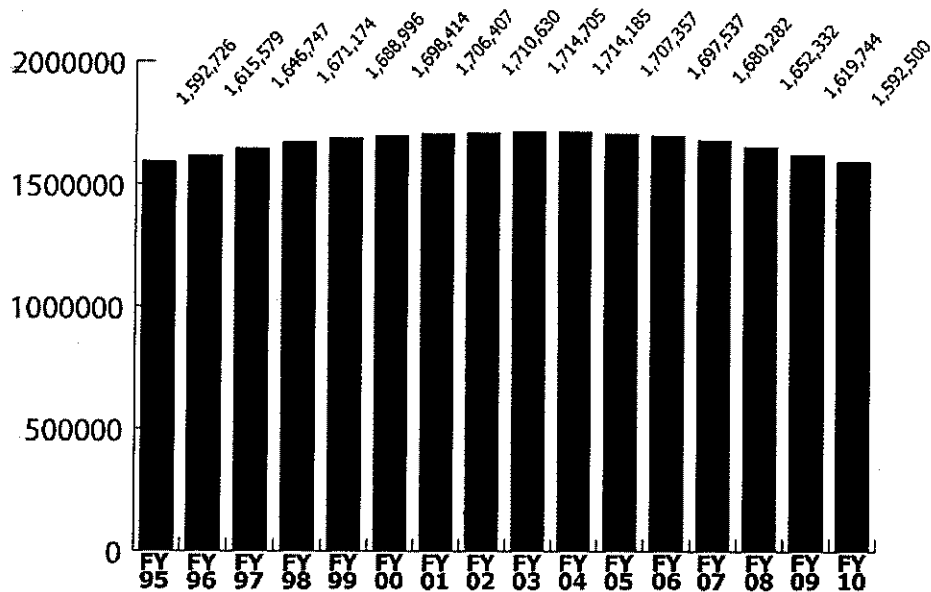
Foundation allowances  
(used for school operations)  
absorb \$3 out of every \$4 spent

FY 2009-10 Total = \$12,877,563,500\*



Source: "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

## Total Pupil Counts



Source: "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

## HIGHER EDUCATION SPENDING AT A GLANCE

While overall education spending increased from 1995-2008, public colleges and universities saw double-digit funding cuts. As state funding has decreased, tuition has increased, making it harder for the state to realize long-term goals to double the number of college graduates in the state.

2000-2010 GENERAL FUND TRENDS (inflation-adjusted in 2010 \$ millions)				
	1999-2000	2009-10	CHANGE 00-10	% OF 2010 GF
Community Colleges	\$364.2	\$299.4	-18%	
Education Department (Administration)	\$46.3	\$19.4	-58%	
Higher Education	\$2,057.5	\$1,507.7	-27%	
General Fund contribution to school aid	\$515.3	\$31.8	-94%	
TOTAL EDUCATION	\$2,983.3	\$1,858.3	-38%	23%

### Sources:

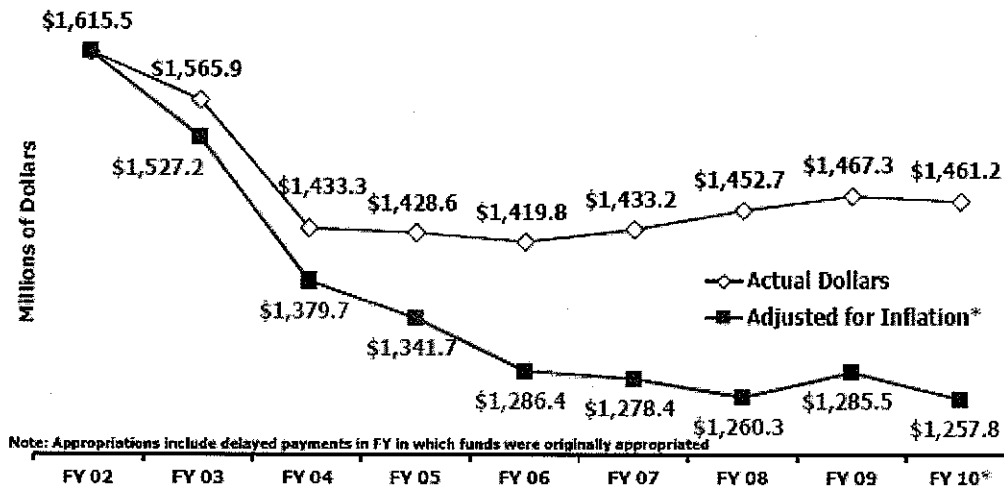
1999-2000 Senate Fiscal Agency Appropriations Report:

(<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>)

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>

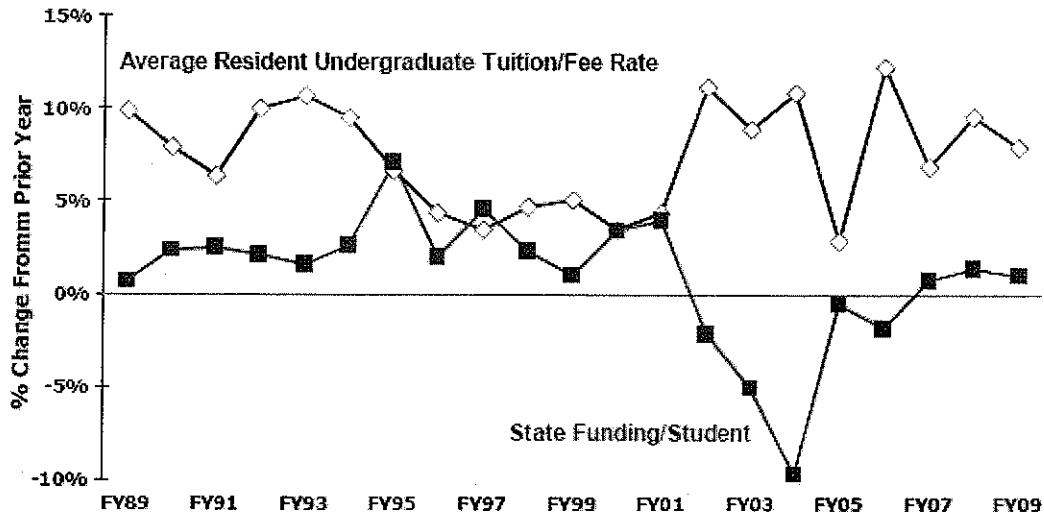
## Total Appropriations for State University Operations



Source: "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.



## State University Tuition Rates and State Funding



**Source:** "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

## PUBLIC SAFETY SPENDING AT A GLANCE

Inflation-adjusted overall state spending on public safety increased 21 percent from 1995-2008. In the general fund, the prison system is one of very few state spending areas to actually see budget growth. But State Police funding is down 19 percent.

INFLATION-ADJUSTED STATE SPENDING (1995-2008) IN 2008 \$ MILLIONS						
	1995	2000	2005	2008	CHANGE 95-08	% OF TOTAL
EDUCATION	\$13,568	\$15,119	\$15,685	\$15,029	11%	35%
HEALTH & HUMAN SERVICES	\$12,291	\$13,408	\$15,425	\$16,198	32%	38%
<b>PUBLIC SAFETY &amp; CORRECTIONS</b>	<b>\$2,161</b>	<b>\$2,411</b>	<b>\$2,473</b>	<b>\$2,615</b>	<b>21%</b>	<b>6%</b>
TRANSPORTATION	\$1,876	\$2,022	\$2,342	\$2,339	25%	6%
ENVIRONMENT/RECREATION/AGRICULTURE	\$887	\$686	\$648	\$580	-35%	1%
REVENUE SHARING w/ LOCAL GOV'T	\$1,652	\$1,816	\$1,205	\$1,076	-35%	3%
OTHER	\$3,881	\$4,331	\$4,679	\$4,673	20%	11%
<b>TOTAL EXPENDITURES</b>	<b>\$36,316</b>	<b>\$39,794</b>	<b>\$42,458</b>	<b>\$42,511</b>	<b>17%</b>	

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports ([http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html)), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

2000-2010 GENERAL FUND TRENDS (inflation-adjusted in 2010 \$ millions)				
	1999-2000	2009-10	CHANGE 00-10	% OF 2010 GF
Corrections	\$1,821.3	\$1,870.2	3%	
Military & Veterans Affairs	\$48.6	\$36.4	-25%	
State Police	\$329.2	\$267.3	-19%	
Judiciary	\$197.2	\$153.1	-22%	
<b>TOTAL PUBLIC SAFETY</b>	<b>\$2,396.5</b>	<b>\$2,327.0</b>	<b>-3%</b>	<b>29%</b>

### Sources:

1999-2000 Senate Fiscal Agency Appropriations Report:

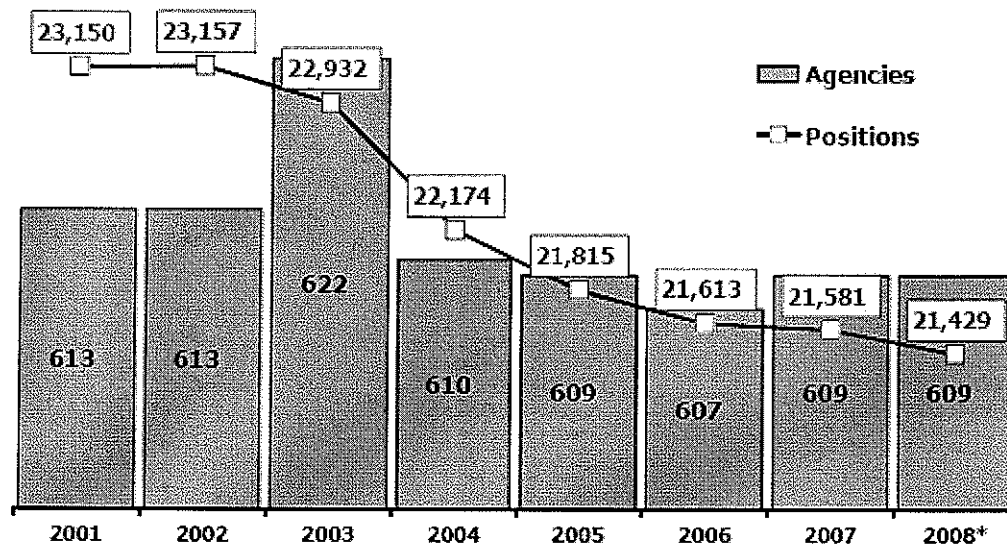
(<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>)

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

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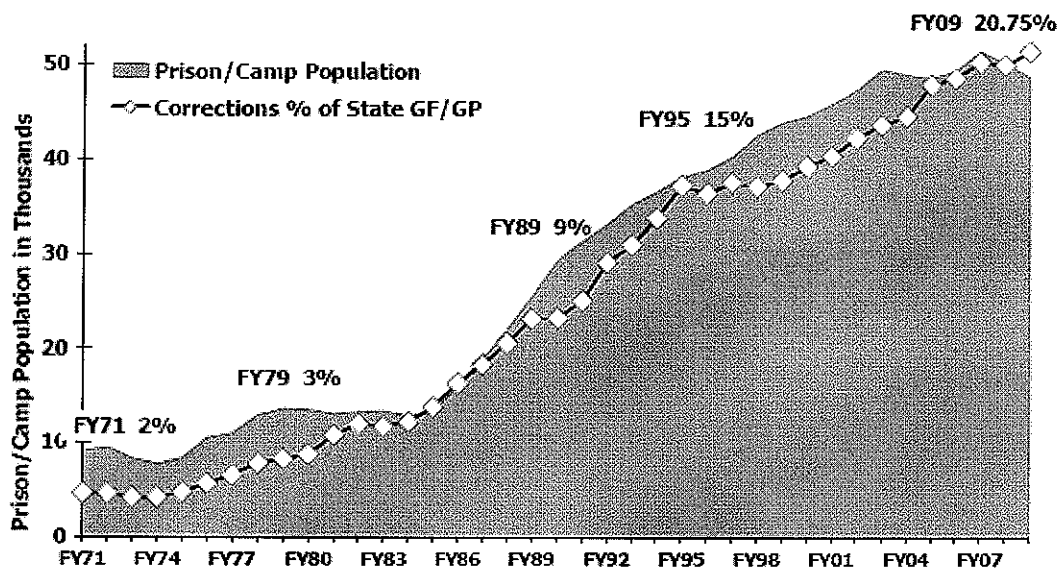
## Law Enforcement



Source: "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.



## Corrections Budget Increases



Source: "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.



## QUALITY OF LIFE SPENDING AT A GLANCE

A wide variety of quality of life budget priorities have suffered significant disinvestment in recent years. Inflation-adjusted state spending was down 35 percent from 1995-2008 on both local revenue sharing and environmental protection. Transportation saw an overall inflation-adjusted increase, in large part due to a gasoline tax increase in the mid-1990s.

INFLATION-ADJUSTED STATE SPENDING (1995-2008) IN 2008 \$ MILLIONS						
	1995	2000	2005	2008	CHANGE 95-08	% OF TOTAL
EDUCATION	\$13,568	\$15,119	\$15,685	\$15,029	11%	35%
HEALTH & HUMAN SERVICES	\$12,291	\$13,408	\$15,425	\$16,198	32%	38%
PUBLIC SAFETY & CORRECTIONS	\$2,161	\$2,411	\$2,473	\$2,615	21%	6%
TRANSPORTATION	\$1,876	\$2,022	\$2,342	\$2,339	25%	6%
ENVIRONMENT/RECREATION/AGRICULTURE	\$887	\$686	\$648	\$580	-35%	1%
REVENUE SHARING w/ LOCAL GOV'T	\$1,652	\$1,816	\$1,205	\$1,076	-35%	3%
OTHER	\$3,881	\$4,331	\$4,679	\$4,673	20%	11%
TOTAL EXPENDITURES	\$36,316	\$39,794	\$42,458	\$42,511	17%	

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports ([http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html)), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

2000-2010 GENERAL FUND TRENDS (inflation-adjusted in 2010 \$ millions)				
	1999-2000	2009-10	CHANGE 00-10	% OF 2010 GF
Agriculture	\$56.2	\$30.6	-46%	
Environmental Quality	\$117.9	\$27.0	-77%	
Natural Resources	\$63.1	\$16.7	-73%	
History, Arts, & Libraries	\$42.0	\$0.0	-100%	
Transportation	\$0.0	\$0.0		

**Sources:**

1999-2000 Senate Fiscal Agency Appropriations Report:

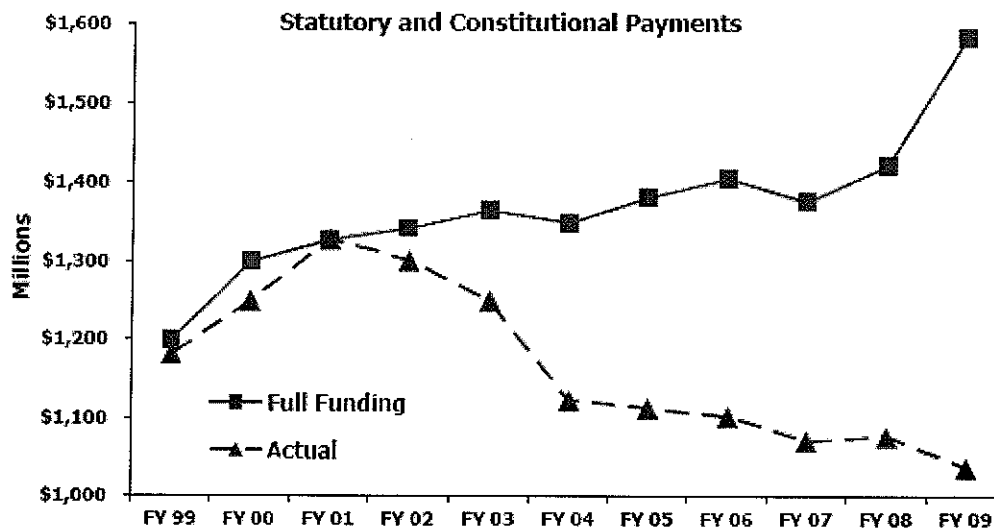
(<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>)

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>



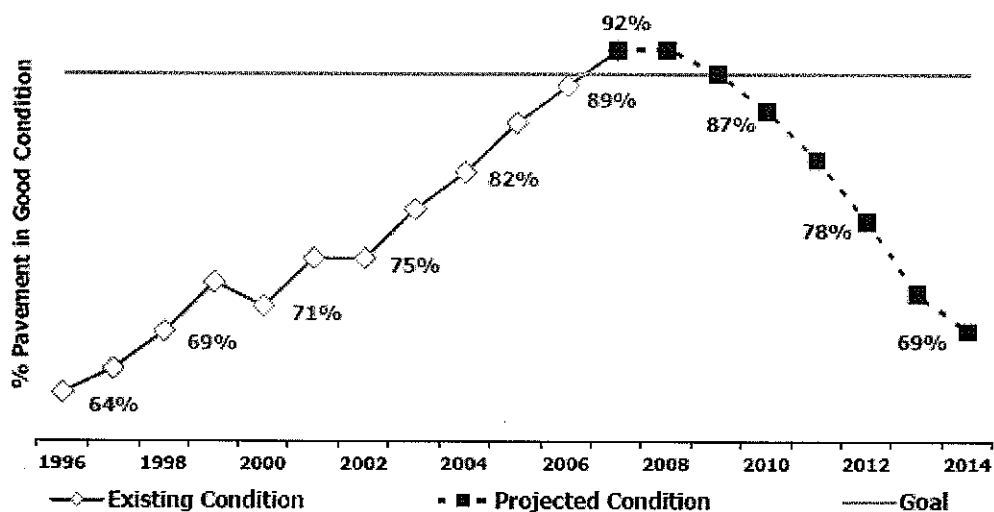
## Revenue Sharing Payments to Cities, Villages, and Townships



**Source:** "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.



## Statewide Pavement Condition Combined Freeway and Non-Freeway



**Source:** "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

## HEALTH/HUMAN SERVICES SPENDING AT A GLANCE

Inflation-adjusted total state spending on health and human services increased 32 percent from 1995-2008. These social programs, which include Medicaid health care coverage, cash and food assistance and a variety of other services for low-income residents, are mostly paid for with federal pass-through funds. Still, the state's share of funding accounts for \$4 in every \$10 spent from the general fund, even after major cuts for this most recent budget year.

INFLATION-ADJUSTED STATE SPENDING (1995-2008) IN 2008 \$ MILLIONS						
	1995	2000	2005	2008	CHANGE 95-08	% OF TOTAL
EDUCATION	\$13,568	\$15,119	\$15,685	\$15,029	11%	35%
<b>HEALTH &amp; HUMAN SERVICES</b>	<b>\$12,291</b>	<b>\$13,408</b>	<b>\$15,425</b>	<b>\$16,198</b>	<b>32%</b>	<b>38%</b>
PUBLIC SAFETY & CORRECTIONS	\$2,161	\$2,411	\$2,473	\$2,615	21%	6%
TRANSPORTATION	\$1,876	\$2,022	\$2,342	\$2,339	25%	6%
ENVIRONMENT/RECREATION/AGRICULTURE	\$887	\$686	\$648	\$580	-35%	1%
REVENUE SHARING w/ LOCAL GOV'T	\$1,652	\$1,816	\$1,205	\$1,076	-35%	3%
OTHER	\$3,881	\$4,331	\$4,679	\$4,673	20%	11%
TOTAL EXPENDITURES	\$36,316	\$39,794	\$42,458	\$42,511	17%	

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports ([http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html)), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

2000-2010 GENERAL FUND TRENDS (inflation-adjusted in 2010 \$ millions)				
	1999-2000	2009-10	CHANGE 00-10	% OF 2010 GF
Community Health	\$3,229.8	\$2,308.7	-29%	
Human Services	\$1,333.9	\$860.3	-36%	
<b>TOTAL HUMAN SERVICES</b>	<b>\$4,563.7</b>	<b>\$3,168.9</b>	<b>-31%</b>	<b>39%</b>

**Sources:**

1999-2000 Senate Fiscal Agency Appropriations Report:

(<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>)

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>



## **Medicaid Impact on Michigan Budget**

- For FY 09, approximately 22.4% of Michigan GF/GP revenue is appropriated by Medicaid
- 1 of 7 Michigan residents were eligible for Medicaid in April 2009
- 42% of births and 70% of nursing home expenditures in Michigan are financed through Medicaid
- Total state and federal Medicaid appropriation is over \$9.9 billion in FY 09
- Since FY 1999-2000
  - 88.4% increase in Medicaid funding
  - 53.0% growth in Medicaid caseload (564,000 cases)

**Source:** "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

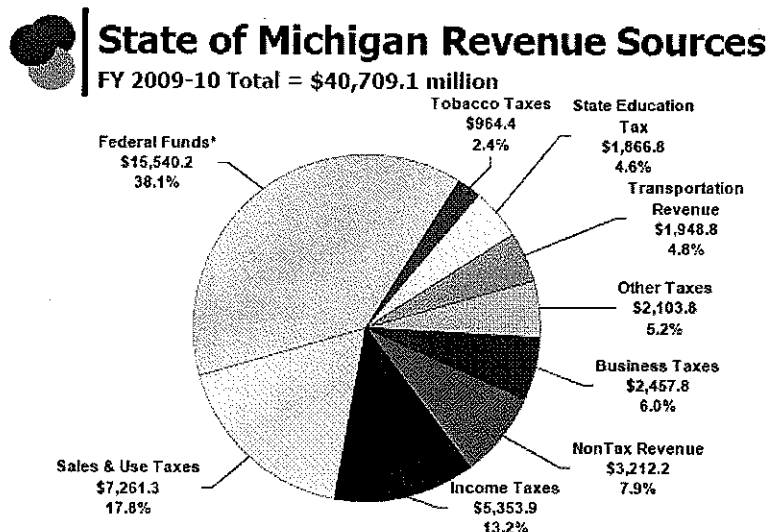
## **DISCUSSION 3: Michigan's Future Tax System**

From 11 a.m to noon, we will discuss Michigan's future tax system:

- How can Michigan best provide for the kinds of public investment priorities we've explored today?
- What future tax system will best balance the needs for sustainable revenue, economic growth, prosperity, fairness, transparency, and simplicity?

### **SNAPSHOT OF MICHIGAN'S TAX SYSTEM**

More than one-third of the total state budget is funded with federal dollars. Six types of taxes account for almost all state tax revenues collected directly from state businesses and residents. Almost all of these revenues are used to fund three types of spending: 1) local schools; 2) the state's general fund for prisons, colleges and universities, social services, revenue sharing with local government, and general government expenses; and, 3) road maintenance and construction. In the past 15 years, most sources of tax revenue have declined. Over time, reliance on income, business, and consumption taxes has decreased. Reliance on transportation, property, and other taxes has increased.



**NOTE TO READERS: THIS CHART INCLUDES ALL REVENUE FROM ALL SOURCES, INCLUDING FEDERAL MONEY.**

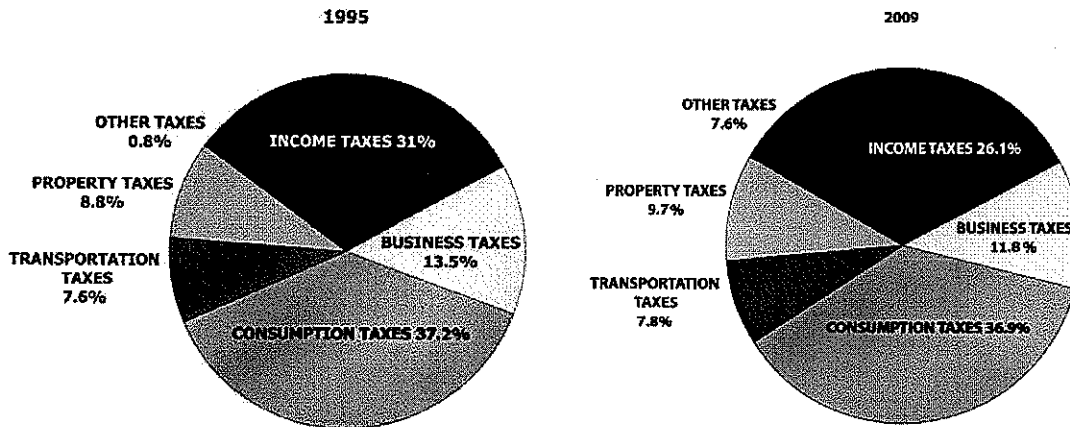
**Source:** "Michigan's Budget & Revenue Trends," by Mitch Bean, director, Michigan House Fiscal Agency, October 2009.

## INFLATION-ADJUSTED STATE TAXES (1995-2009) – IN 2009 \$ MILLIONS

	1995	2000	2005	2008	2009 (est.)	CHANGE 05-09	RATIO 09 REVS
INCOME TAXES	\$7518	\$9205	\$7422	\$8078	\$6058	-19%	26%
BUSINESS TAXES	\$3277	\$3164	\$2553	\$2914	\$2745	-16%	11%
CONSUMPTION TAXES	\$9013	\$10075	\$10004	\$9294	\$8558	-5%	37%
TRANSPORTATION TAXES	\$1840	\$2276	\$2144	\$1853	\$1805	-2%	8%
PROPERTY TAXES	\$2143	\$2569	\$2756	\$2435	\$2254	5%	10%
OTHER TAXES	\$203	\$236	\$780	\$1264	\$1758	765%	8%
<b>TOTAL STATE TAXES</b>	<b>\$23994</b>	<b>\$27525</b>	<b>\$25659</b>	<b>\$25838</b>	<b>\$23178</b>	<b>-4%</b>	<b>0%</b>

**Sources & Methodology:** Calculations from Senate Fiscal Agency, Michigan State Government Taxes, FY 1990-91 to FY 2007-08 ([www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF](http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF)), House Fiscal Agency Revenue Source and Distribution Report, July 2009 (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>). Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

## THE TAX REVENUE PIE 1995 - 2009



**Sources & Methodology:** Calculations from Senate Fiscal Agency, Michigan State Government Taxes, FY 1990-91 to FY 2007-08 ([www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF](http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF)), House Fiscal Agency Revenue Source and Distribution Report, July 2009 (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>). Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

## **DEFINITIONS:**

**INCOME TAXES:** Personal income tax and negligible corporate income tax repealed in 1993.

**BUSINESS TAXES:** Single Business Tax and the Michigan Business Tax, oil and gas severance tax, insurance company premium tax, horse race wagering tax, and casino gaming wagering tax.

**CONSUMPTION TAXES:** Sales, use, cigarette/tobacco, beer and wine, and liquor taxes.

**TRANSPORTATION TAXES:** Fuel taxes, and motor vehicle registration taxes, among others.

**PROPERTY TAXES:** State education property tax (first collected in FY 1993-94), telephone and telegraph tax, intangibles tax, inheritance/estate tax, industrial and commercial facilities tax, and the real estate transfer tax, among others paid by individual property owners and businesses.

**OTHER TAXES:** Medicaid Quality Assurance Assessment (QAAP) on some health providers and health plans, among others.

**Sources & Methodology:** Calculations from Senate Fiscal Agency, Michigan State Government Taxes, FY 1990-91 to FY 2007-08 ([www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF](http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF)), House Fiscal Agency Revenue Source and Distribution Report, July 2009 (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>). Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

## **UNDER MICHIGAN'S TAX LIMIT**

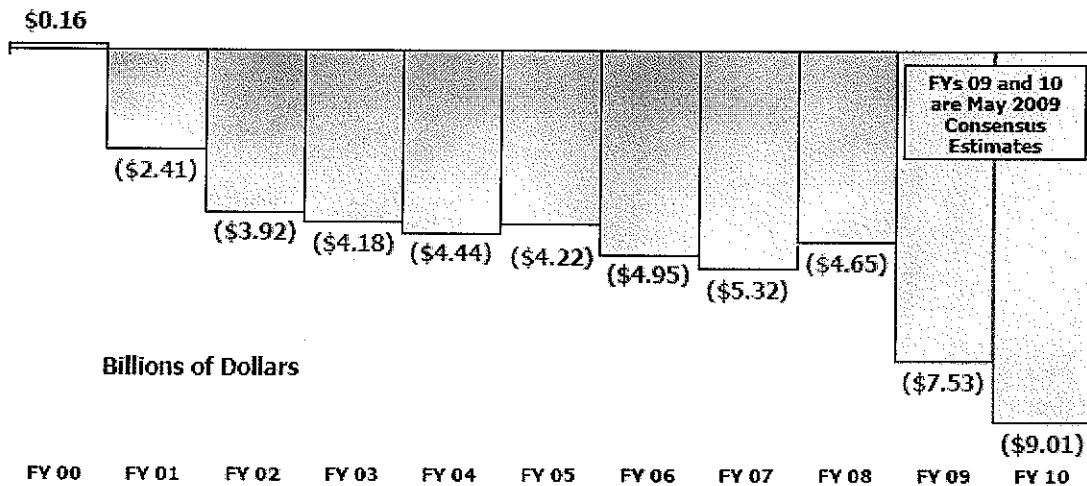
In 1978, Michigan voters passed the "Headlee Amendment" aimed at restricting future taxation of state residents and businesses. Under this constitutional amendment, total tax revenues collected by the state cannot exceed 9.49 percent of the total amount of personal income earned by Michigan residents. Tax revenues have remained well below the Headlee limit for most of the past generation. Implication: the state could collect \$9 billion more per year and not exceed the voter-approved constitutional spending limit.



## Constitutional Revenue Limit

Average growth of Michigan personal income = 1.5% per year from 2000 through 2010

Average growth of Michigan revenue = 0.79% per year from 2000 through 2010



**Source:** House Fiscal Agency: "Michigan's Revenue and Budget Trends," by Mitch Bean, HFA Director. October 14, 2009.



## INCOME TAXES AT A GLANCE

The state collects personal income taxes to help fund local schools and the state's "general fund budget" for colleges and universities, prisons, some social services, and a variety of general government expenses.

### INFLATION-ADJUSTED STATE TAXES (1995-2009) – IN 2009 \$ MILLIONS

	1995	2000	2005	2008	2009 (est.)	CHANGE 05-09	RATIO 09 REVS
<b>INCOME TAXES</b>	<b>\$7518</b>	<b>\$9205</b>	<b>\$7422</b>	<b>\$8078</b>	<b>\$6058</b>	<b>-19%</b>	<b>26%</b>
BUSINESS TAXES	\$3277	\$3164	\$2553	\$2914	\$2745	-16%	11%
CONSUMPTION TAXES	\$9013	\$10075	\$10004	\$9294	\$8558	-5%	37%
TRANSPORTATION TAXES	\$1840	\$2276	\$2144	\$1853	\$1805	-2%	8%
PROPERTY TAXES	\$2143	\$2569	\$2756	\$2435	\$2254	5%	10%
OTHER TAXES	\$203	\$236	\$780	\$1264	\$1758	765%	8%
TOTAL STATE TAXES	\$23994	\$27525	\$25659	\$25838	\$23178	-4%	0%

**Sources & Methodology:** Calculations from Senate Fiscal Agency, Michigan State Government Taxes, FY 1990-91 to FY 2007-08 ([www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF](http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF)), House Fiscal Agency Revenue Source and Distribution Report, July 2009 (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>). Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

**INCOME TAX RATES:** Elected officials have often tinkered with the income tax since it was adopted in 1967. Originally 2.6 per cent of income, the tax went as high as 6.35 percent in 1983. It was lowered to 4.4 percent in 1994 with more cuts phased in through 1999 legislation. By 2005, it was down to 3.9 percent but then increased in 2007 to 4.35 percent with additional reductions scheduled to bring it back down to 3.9 percent by late 2015.

#### Sources:

Tax revenue data from Senate Fiscal Agency:  
(<http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF>)  
Funding Descriptions from Citizens Research Council of Michigan state tax guide:  
(<http://www.crcmich.org/PUBLICAT/1990s/1999/rpt327d.pdf>)  
Rate History from MSU Economist Paul Menchink:  
([www.mahp.org/resources/.../Michigan\\_Income\\_Tax--Menchik.ppt](http://www.mahp.org/resources/.../Michigan_Income_Tax--Menchik.ppt))

## BUSINESS TAXES AT A GLANCE

The state collects a wide range of business taxes, including the Michigan Business Tax, oil and gas severance tax, insurance company premium tax, horse race wagering tax, and casino gaming wagering tax. These business taxes fund a wide range of government activity, mostly local schools and the state's "general fund budget" for colleges and universities, prisons, some social services, and general government expenses.

### INFLATION-ADJUSTED STATE TAXES (1995-2009) – IN 2009 \$ MILLIONS

	1995	2000	2005	2008	2009 (est.)	CHANGE 05-09	RATIO 09 REVS
INCOME TAXES	\$7518	\$9205	\$7422	\$8078	\$6058	-19%	26%
<b>BUSINESS TAXES</b>	<b>\$3277</b>	<b>\$3164</b>	<b>\$2553</b>	<b>\$2914</b>	<b>\$2745</b>	<b>-16%</b>	<b>11%</b>
CONSUMPTION TAXES	\$9013	\$10075	\$10004	\$9294	\$8558	-5%	37%
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OTHER TAXES	\$203	\$236	\$780	\$1264	\$1758	765%	8%
TOTAL STATE TAXES	\$23994	\$27525	\$25659	\$25838	\$23178	-4%	0%

**Sources & Methodology:** Calculations from Senate Fiscal Agency, Michigan State Government Taxes, FY 1990-91 to FY 2007-08 ([www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF](http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF)), House Fiscal Agency Revenue Source and Distribution Report, July 2009 (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>). Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

**BUSINESS TAX RATES:** A complex combination of income tax and gross receipts tax, the MBT replaced the much-maligned SBT in 2007. But, thanks in large part to a 22 percent surcharge enacted to replace an even more controversial tax on business services, the MBT is just about as unpopular as its predecessors. The tax is comprised of two components, an income tax and a modified gross receipts tax. Both taxes are subject to a number of base adjustments and apportionment to Michigan. The business income tax rate is 4.95 percent. The modified gross receipts tax is 0.8 percent. Eligible small businesses pay an alternative tax of 1.8% of adjusted business income. Insurance companies are subject to a tax of 1.25% of gross direct premiums plus a retaliatory tax. Financial institutions are subject to a franchise tax of 0.235% of an institution's net capital. Public Act (PA) 145 of 2007 created a MBT surcharge in order "to meet deficiencies in state funds. . ." The surcharge is calculated as a percentage of a taxpayer's liability apportioned to Michigan, but before credits. Insurance companies are exempt from the surcharge. Taxpayers, other than financial institutions, are subject to a 21.99% surcharge, while financial institutions pay a surcharge of 27.7% for the 2008 tax year, then 23.4% after 2008.

**Sources:** Tax revenue data from Senate Fiscal Agency: (<http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF>)  
Funding Descriptions from Citizens Research Council of Michigan state tax guide: (<http://www.crcmich.org/PUBLICAT/1990s/1999/rpt327d.pdf>)

## CONSUMPTION TAXES AT A GLANCE

Consumption taxes include sales, use, cigarette/tobacco, beer and wine, and liquor taxes. The state collects these taxes to help fund local schools, local governments, and the state's "general fund budget" for colleges and universities, prisons, some social services, and a variety of general government expenses.

### INFLATION-ADJUSTED STATE TAXES (1995-2009) – IN 2009 \$ MILLIONS

	1995	2000	2005	2008	2009 (est.)	CHANGE 05-09	RATIO 09 REVS
INCOME TAXES	\$7518	\$9205	\$7422	\$8078	\$6058	-19%	26%
BUSINESS TAXES	\$3277	\$3164	\$2553	\$2914	\$2745	-16%	11%
<b>CONSUMPTION TAXES</b>	<b>\$9013</b>	<b>\$10075</b>	<b>\$10004</b>	<b>\$9294</b>	<b>\$8558</b>	<b>-5%</b>	<b>37%</b>
TRANSPORTATION TAXES	\$1840	\$2276	\$2144	\$1853	\$1805	-2%	8%
PROPERTY TAXES	\$2143	\$2569	\$2756	\$2435	\$2254	5%	10%
OTHER TAXES	\$203	\$236	\$780	\$1264	\$1758	765%	8%
TOTAL STATE TAXES	\$23994	\$27525	\$25659	\$25838	\$23178	-4%	0%

**Sources & Methodology:** Calculations from Senate Fiscal Agency, Michigan State Government Taxes, FY 1990-91 to FY 2007-08 ([www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF](http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF)), House Fiscal Agency Revenue Source and Distribution Report, July 2009 (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>). Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, "Economic Forecast Variables" (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

**CONSUMPTION TAX RATES:** The state's main sales tax was increased from 4 percent to 6 percent in 1993. Tobacco taxes increased from \$1.25 per pack to \$2 per pack in 2004. The beer tax is 2 cents per bottle and was last changed in 1966 when it was lowered. The wine tax is 13.5-20 cents per liter depending on alcohol content and has been at that level since 1981.

#### Sources:

Tax revenue data from Senate Fiscal Agency:  
(<http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF>)  
Funding Descriptions from Citizens Research Council of Michigan state tax guide:  
(<http://www.crcmich.org/PUBLICAT/1990s/1999/rpt327d.pdf>)

## STATEWIDE TRANSPORTATION TAXES AT A GLANCE

The state collects a wide variety of fuel and vehicle registration taxes to fund state and local road and bridge maintenance and construction.

### INFLATION-ADJUSTED STATE TAXES (1995-2009) – IN 2009 \$ MILLIONS

	1995	2000	2005	2008	2009 (est.)	CHANGE 05-09	RATIO 09 REVS
INCOME TAXES	\$7518	\$9205	\$7422	\$8078	\$6058	-19%	26%
BUSINESS TAXES	\$3277	\$3164	\$2553	\$2914	\$2745	-16%	11%
CONSUMPTION TAXES	\$9013	\$10075	\$10004	\$9294	\$8558	-5%	37%
<b>TRANSPORTATION TAXES</b>	<b>\$1840</b>	<b>\$2276</b>	<b>\$2144</b>	<b>\$1853</b>	<b>\$1805</b>	<b>-2%</b>	<b>8%</b>
PROPERTY TAXES	\$2143	\$2569	\$2756	\$2435	\$2254	5%	10%
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**TRANSPORTATION TAX RATES:** First established at 2 cents per gallon in the 1920s, the gasoline tax has remained at 19 cents per gallon since 1997.

#### SOURCES:

Tax revenue data from Senate Fiscal Agency:

(<http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF>)

Funding Descriptions from Citizens Research Council of Michigan state tax guide:

(<http://www.crcmich.org/PUBLICAT/1990s/1999/rpt327d.pdf>)

## STATEWIDE PROPERTY TAXES AT A GLANCE

The state collects a statewide property tax to fund local schools and other property-related taxes, such as a real estate property tax. The statewide property taxes listed below do not include additional local government and schools millages paid by businesses and individual property owners.

### INFLATION-ADJUSTED STATE TAXES (1995-2009) – IN 2009 \$ MILLIONS

	1995	2000	2005	2008	2009 (est.)	CHANGE 05-09	RATIO 09 REVS
INCOME TAXES	\$7518	\$9205	\$7422	\$8078	\$6058	-19%	26%
BUSINESS TAXES	\$3277	\$3164	\$2553	\$2914	\$2745	-16%	11%
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<b>PROPERTY TAXES</b>	<b>\$2143</b>	<b>\$2569</b>	<b>\$2756</b>	<b>\$2435</b>	<b>\$2254</b>	<b>5%</b>	<b>10%</b>
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**PROPERTY TAX RATES:** Six mills. Adopted in 1993 as part of Proposal A.

**Sources:**

Tax revenue data from Senate Fiscal Agency:

(<http://www.senate.michigan.gov/sfa/Revenue/MichiganStateGovernmentTaxes.PDF>)

Funding Descriptions from Citizens Research Council of Michigan state tax guide:

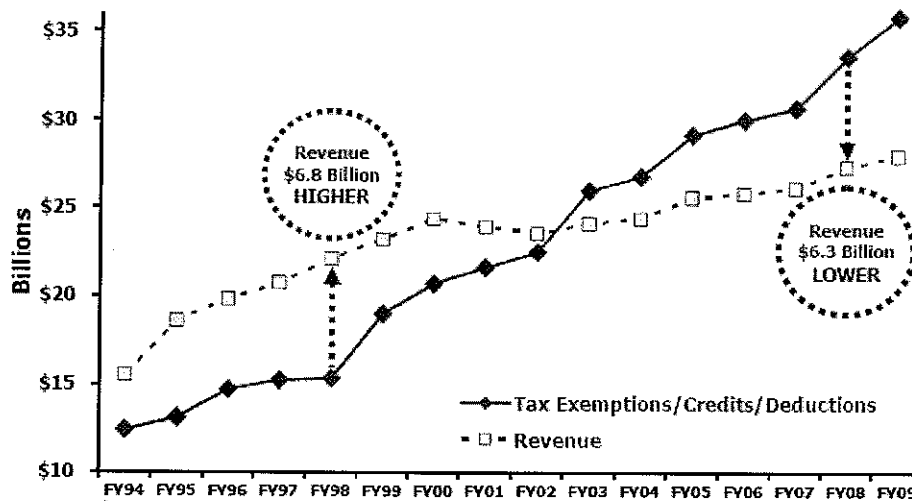
(<http://www.crcmich.org/PUBLICAT/1990s/1999/rpt327d.pdf>)

## TAX EXPENDITURES ("TAX BREAKS") AT A GLANCE

Michigan doles out more than \$30 billion a year in "tax expenditures" – that's accounting talk for "tax breaks. The tax breaks range from multi-billion-dollar reductions on future property taxes in exchange for promises of plant expansions and new jobs to reductions in state beer taxes for local brewers. Here's the trend...



### Impact of Tax Exemptions/Credits/Deductions



#### THE "BIG FOUR" MICHIGAN TAX BREAKS

Products & Services exempt from sales tax	\$14.2 billion
Income Tax Exemptions	\$6.1 billion
Homestead Property Tax Exemption	\$3.7 billion
Michigan Business Tax Exemptions	\$1.9 billion

**Sources:** Tax expenditure trend data and list of most recent tax breaks comes from from annual executive budget reports: ([http://www.michigan.gov/documents/treasury/Budget\\_Report\\_09\\_257559\\_7.pdf](http://www.michigan.gov/documents/treasury/Budget_Report_09_257559_7.pdf))



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